

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

EXPERIMENTAL PERIODICALS
CO-PALLETIZATION DROPSHIP
DISCOUNTS, 2002

Docket No. MC2002-3

COMMENTS OF UNITED STATES POSTAL SERVICE
IN SUPPORT OF SETTLEMENT
(December 9, 2002)

In accordance with Order No. 1354, the Postal Service hereby provides its Comments in support of settlement of the instant case.

I. Procedural History

On September 26, 2002, the United States Postal Service filed with the Postal Rate Commission ("Commission") the Request of the United States Postal Service for a Recommended Decision on Experimental Periodicals Co-Palletization Dropship Discounts ("Request"). The Request was filed in accordance with 39 U.S.C. §§ 3622 and 3623.

The Postal Service proposed the creation of an experimental classification and discounts, including changes to Rate Schedule 421 and the Domestic Mail Classification Schedule. The Postal Service supported its Request with the written direct testimony of witness Altaf H. Taufique (USPS-T-1), and other documents, including exhibits, submitted pursuant to the Commission's Rules of Practice and Procedure. 39 C.F.R. §§ 3001.1 *et seq.* The experiment is

proposed to be in effect for two years, with an automatic extension if a request for a permanent classification has been filed.

The Postal Service estimated that the proposed discounts would produce cost savings approximately equal to the revenue loss. USPS-T-1 at 15. Furthermore, the estimated net income from the discounts would not materially affect the Docket No. R2001-1 cost and revenue projections for FY 2003.

By Order No. 1347, issued on October 2, 2002, the Commission noticed the Postal Service's Request and designated the instant proceeding as Docket No. MC2002-3. The Commission gave interested parties until October 18, 2002, to intervene in the proceeding, requesting that notices of intervention indicate whether the participant seeks a hearing, and specify any genuine issues of material fact that warrant a hearing. The Commission designated Shelley S. Dreifuss, the Director of its Office of the Consumer Advocate ("OCA"), to represent the general public. The Order also established procedures for expediting the case, and named Postal Service counsel as settlement coordinator.

Seventeen parties have intervened in this proceeding, and no one has requested a hearing, or even specified any issues of material fact warranting a hearing.

On October 11, 2002, the Chairman's Information Request (CIR) No. 1 asked about the Postal Service's data collection plans, as well as about the cost differences between sacks and pallets. Postal Service witness Taufique responded on October 25, 2002. As a result of discussions with intervenors and

the Office of the Consumer Advocate, a revised response to question 1 of CIR No. 1 was filed on November 21, 2002. Attached to this response was an updated data collection plan. Discovery was also filed by intervenor R.R. Donnelley & Sons Co., and responses were filed on October 23, 2002.

After circulating a draft Stipulation and Agreement to the participants for comments, the Postal Service held a Settlement Conference on October 28, 2002. Ten of the 17 intervenors, and the OCA, participated in the conference. Discussion suggested support for settlement, and comments were provided on the draft Stipulation and Agreement ("Agreement"). After the conference a revised draft was circulated.

As a result of negotiations with all participants, a widely supported final Stipulation and Agreement was produced. That Agreement was filed with the Commission on November 22, 2002. Thirteen of the 19 participants have signed the Agreement, including all of the intervenors representing Periodicals mailers.¹

The Agreement, as filed, asks the Commission to recommend an experimental classification for the co-palletization dropship discounts, and associated discounts, for approval by the Governors of the United States Postal Service. It bears emphasizing that the Agreement reflects the concurrence of the signatories that, for the purpose of this proceeding, the Postal Service's testimony and supporting documentation provide substantial record evidence

¹ The American Postal Workers Union, the Direct Marketing Association, Inc., and David B. Popkin have not signed the Stipulation and Agreement, but each of these intervenors is not opposed to the settlement. The Association of Priority Mail Users, Inc., Val-Pak Dealers' Association, Inc., and Val-Pak Direct

sufficient to serve as the basis for the Commission's recommendations to the Governors. Stipulation and Agreement at ¶ 2.

On November 26, 2002, the Commission issued Order No. 1354, granting, with some adjustments, the Postal Service's Motion for Establishment of a Procedural Mechanism and Schedule Governing Further Proceedings in Light of Projected Settlement (November 22, 2002). As required by that Order, participants designated direct testimonies and written cross-examination, supported by appropriate declarations for inclusion in the evidentiary record.² The Order also set today as the deadline for the filing of comments in support of or in opposition to material terms of the settlement.

II. The Commission Should Recommend the Settlement Agreement.

The broad support for the Settlement Agreement among Periodicals and other participants is unusual, and shows the broad benefits of conducting an experiment to test the impact of the proposed discounts on co-palletization and dropshipping. The Commission should recommend this proposal so the experiment can go forward.

Marketing Systems, Inc. also have not signed, and are considering the filing of comments later this week.

² Office of the Consumer Advocate Designation of Written Cross-Examination to United States Postal Service (December 2, 2002); United States Postal Service Designation of Direct Testimony for Inclusion in the Record (December 4, 2002); Notice of the United States Postal Service Regarding Filing of Original Declarations of Authenticity of Witness Altaf H. Taufique (December 6, 2002).

A. The Proposed Co-Palletization Dropship Discounts Would Provide Operational and Financial Benefits to the Mailing Community and the Postal Service.

The proposed experimental Periodicals co-palletization dropship discounts are designed to provide an additional incentive for publishers, printers, and consolidators to combine different publications or print runs on pallets, so that Periodicals mail can be moved from sacks to pallets and be dropshipped to destination facilities. Co-palletization opens up worksharing to more Periodicals volume. While about 70 percent of Periodicals mail already is prepared on pallets (USPS-T-1 at 2), the remaining mail generally lacks the density as individual publications to reach pallet minimums. Since the preparation of co-pallets is typically more onerous than the preparation of single-publication pallets, an additional rate incentive may encourage mailer participation in this worksharing behavior that benefits both the customers and the Postal Service. USPS-T-1 at 4-5.

The proposed discounts will be available only for Periodicals mail that lacks the density for single-publication pallets. USPS-T-1 at 6-8. The goal is to drive costs out of the Periodicals class by encouraging low-density publications to combine with other publications.³ Through such combinations, Periodicals mail will migrate from more costly sacks to less costly pallets, and will be dropshipped, saving additional costs. USPS-T-1 at 5-6, 13.

³ Smaller publications would especially benefit from co-palletization because they may not be able to achieve the 250 pounds minimum for any particular pallet presort. Bigger publications also could benefit even if single-publication pallets to

Two discount levels are proposed, distinguished by depth of dropshipment: ADC (Area Distribution Center) and SCF (Sectional Center Facility). The proposed discounts – 0.7 cents per piece for the former and 1.0 cent per piece for the latter – reflect conservatively the estimated costs avoided by the particular degree of worksharing performed by the mailer. USPS-T-1 at 12. The proposed discounted rate categories would be additional options offered to mailers; existing Periodicals classifications and rates would remain unchanged.

As demonstrated in the testimony of witness Taufique (USPS-T-1), the Postal Service's overall revenue position will not be affected materially under the proposed experiment. No capital investment is required to initiate the service. The discounts selected are based on conservative cost avoidance estimates, and employ less than full passthroughs. USPS-T-1 at 11. Based on market research conducted by Magazine Publishers of America, the revenue leakage from the limited Periodicals volume that is already co-palletized and dropshipped will be offset by the new volume that will be co-palletized and dropshipped in response to the proposed discounts. *Id.* at 14-15. Thus, the proposed experiment offers no appreciable risk of significant, negative financial results or harm to the Postal Service, mailers using the discounts, or other mailers.

The Postal Service proposes that this experimental classification be in effect for two years, which should allow mailers sufficient time to adjust their

certain locations can be produced, because of limited density to other locations, or smaller editions of the publication.

mailing practices to use the classification. Moreover, this period will provide the Postal Service adequate time to aggregate and fully analyze data collected under the experiment, so that a request for a permanent change in mail classification can be prepared if the data are determined to support such a request. If such a request is made within the experimental period, the Postal Service asks that the experiment continue until action on that request can be completed, thus avoiding disruption to both mailers and the Postal Service.

The Postal Service believes that the classifications embodied in this proposed experiment will be attractive to mailers and will contribute to the long-term viability of the postal system. The proposed classifications will further the general policies of efficient postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act. See 39 U.S.C. §§ 101(a), 403(a), and 403(b). The requested changes also conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c). USPS-T-1 at 16-19.

B. The Proposed Correction to the Ride-Along Classification, Along with Other Minor Corrections, Should Also be Recommended.

The Postal Service also proposes to make small corrections to DMCS § 443.1a (Ride Along) and to Rate Schedule 421. USPS-T-1 at 1-2. No one has opposed these corrections, and they should be recommended.

III. Conclusion

The Postal Service has requested that the Commission issue an Opinion and Recommended Decision favoring the proposed classifications and discounts for experimental co-palletization dropship discounts. This Request meets the

criteria of the Postal Reorganization Act, and is supported by all participants who have taken a position on the Settlement Agreement.

Therefore, the United States Postal Service asks the Postal Rate Commission to issue an Opinion and Recommended Decision recommending the classification language and discounts requested by the Postal Service.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

David H. Rubin

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December 9, 2002